

**MINUTES
of the
FIRST MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**June 17, 2015
State Capitol, Room 322
Santa Fe**

The first meeting of the Revenue Stabilization and Tax Policy Committee for the 2015 interim was called to order by Senator Carlos R. Cisneros, chair, on Wednesday, June 17, 2015, at 10:15 a.m. in Room 322 of the State Capitol in Santa Fe.

Present

Sen. Carlos R. Cisneros, Chair
Rep. Jason C. Harper, Vice Chair
Sen. Ted Barela
Sen. Sue Wilson Beffort
Rep. Tim D. Lewis
Rep. Antonio Maestas
Rep. Rod Montoya
Sen. Mark Moores
Sen. George K. Munoz
Rep. Debbie A. Rodella
Sen. Clemente Sanchez
Rep. James R.J. Strickler
Rep. Carl Trujillo
Rep. Jim R. Trujillo

Designees

Rep. Sharon Clahchischilliage
Sen. Lee S. Cotter
Rep. Bill McCamley
Sen. Nancy Rodriguez

Absent

Rep. David M. Gallegos
Sen. William E. Sharer
Sen. John Arthur Smith
Sen. Peter Wirth

Rep. David E. Adkins
Sen. William F. Burt
Sen. Jacob R. Candelaria
Rep. Randal S. Crowder
Rep. Brian Egolf
Rep. Miguel P. Garcia
Rep. Stephanie Garcia Richard
Rep. Bealquin Bill Gomez
Sen. Stuart Ingle
Rep. Conrad James
Sen. Gay G. Kernan
Rep. Stephanie Maez
Rep. Javier Martinez

Rep. Tomás E. Salazar
Sen. John M. Sapien
Rep. Jeff Steinborn
Rep. James G. Townsend
Sen. Pat Woods

Staff

Pam Stokes, Staff Attorney, Legislative Council Service (LCS)
Tessa Ryan, Staff Attorney, LCS
Rebecca Griego, LCS
Amy Chavez-Romero, Assistant Director for Drafting Services, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Wednesday, June 17**Post-Session Fiscal Report**

David Abbey, director, Legislative Finance Committee (LFC), introduced a new staff member, Abraham Sanogo, economist, LFC. Mr. Abbey presented the LFC's fiscal overview and outlook and provided the committee with the LFC's post-session review. Mr. Abbey stated that last year, in the midst of dropping oil prices, New Mexico experienced a sharp decline in revenue. By December, "new money" had fallen to about \$140 million. Mr. Abbey presented charts that compared oil and natural gas prices, including actual data through the current date and estimated prices through the next fiscal year. He noted that oil prices appear to be within range of a \$56.00 per barrel price point cap. He also stated that premiums on natural gas have reached a high of \$1.00 per thousand cubic feet and directed the committee's attention to a forecast of New Mexico natural gas prices within the LFC's post-session review.

From the LFC's post-session review, Mr. Abbey presented various New Mexico labor market and income data, including measurements of wage, salary and personal income growth. He also presented a general fund financial summary that took into account the General Appropriation Act of 2015 and special appropriations that passed during the 2015 special session and compared reserves as a percentage of recurring appropriations using audited, actual data for fiscal year (FY) 2014 and February estimates for FY 2015 and FY 2016. For FY 2014, general fund reserves accounted for 10.8% of recurring appropriations, while it is estimated that general fund reserves will account for 8% of recurring appropriations in FY 2015 and 7.5% in FY 2016. Mr. Abbey noted that while a target for general fund reserves is usually about 10% of recurring appropriations, it is possible that updated revenue estimates for FY 2016 could reflect an amount closer to that target.

Mr. Abbey provided some highlights with respect to certain items contained in the General Appropriation Act of 2015, including that:

- state funding for the state equalization guarantee will increase in FY 2016 to \$27 million, or by 1.1%, from the previous fiscal year;
- the FY 2016 appropriation for the Higher Education Department is 1.1% higher than the appropriation from the previous fiscal year;
- the FY 2016 general fund appropriation for the Human Services Department has risen by .4% from the previous fiscal year, to \$3.8 million;
- the appropriation for Medicaid included \$20.8 million from tobacco settlement revenue; and
- the general fund appropriation for the Children, Youth and Families Department increased \$8.3 million, most of which will be provided to the department's protective services program.

Mr. Abbey also provided an overview of special and supplemental appropriations contained in the General Appropriation Act of 2015, including:

- \$37.5 million for Local Economic Development Act projects;
- \$5.5 million for the Job Training Incentive Program;
- \$4 million from the Consumer Settlement Fund of the Office of the Attorney General for water-related litigation; and
- \$5.5 million to replenish the Higher Education Endowment Fund.

Mr. Abbey presented the committee with the LFC's general fund revenue tracking report, indicating that, for the current fiscal year, revenues are about 2% higher than the Consensus Revenue Estimating Group's previous estimates due to a strength in oil and gas revenues; increased corporate income tax collections; and repayments of credits related to assessments to insurers for costs of the New Mexico Medical Insurance Pool.

Questions and comments from committee members followed. A committee member inquired about the current price of oil. Mr. Abbey responded and estimated that the price was about \$56.00 or \$57.00 per barrel.

A committee member asked about the general fund reserve balance estimated for the 2016 legislative session. Mr. Abbey responded that the current estimate of 8% reflects the LFC's revenue estimates in February, in addition to appropriations made through the General Appropriation Act of 2015 and supplemental appropriations made during the 2015 special session. He noted that updated revenue estimates for FY 2016 would be available in August and December. He mentioned the possibility that upcoming revenue estimates could reflect general fund reserve balances of 10%, if current revenue trends continue.

A committee member asked why New Mexico's spending on Medicaid seemed to be low, compared to spending levels of other states. Mr. Abbey stated that New Mexico receives a higher match from the federal government because it is one of the top five poorest states. He also stated that New Mexico's Medicaid participation rates are among the highest in the nation. The LFC has scheduled a hearing regarding Centennial Care and Medicaid costs later in the month.

A committee member inquired about the sufficiency of a supplemental appropriation made during the special session for the Administrative Office of the Courts (AOC). Mr. Abbey indicated that the AOC received a supplemental appropriation of \$300,000. He added that by using that appropriation, in addition to budget adjustment requests and savings, the AOC would have sufficient funding for the remainder of FY 2015.

Committee members briefly discussed other topics with Mr. Abbey, including: funding with respect to early childhood programs, special education programs and drug courts; forecasts for oil and gas prices and production; and the effects of tax credits on revenues. Committee members also asked questions about the reversion balances presented as part of general fund consensus revenue estimates. Mr. Abbey indicated that the reported reversion balances were mostly attributable to reversions from public schools, a Medicaid reversion and unspent personal services and benefits budgets of state agencies. He added that there have recently been modest increases in hiring among state agencies, and thus, the reversion amounts might decrease in the future.

Budget and Tax Policy Update: 2015 Regular and First Special Sessions

Elisa Walker-Moran, chief economist, Taxation and Revenue Department (TRD), provided a handout that summarizes tax-related legislation that passed during the 2015 regular and special sessions. Legislation that passed during the regular session made:

- two changes to existing gross receipts tax deductions by expanding one pertaining to administration and accounting services and extending the duration of another for military acquisitions;
- six changes to income taxes, including creating a new sustainable building tax credit that can be taken against personal or corporate income tax liability; extending eligibility for a personal income tax credit for national guard members to all national guard members who are activated for overseas service; giving taxpayers the option to contribute their personal income tax refunds to senior citizens programs or to spay and neuter programs for dogs and cats; and significant changes to the film production tax credit; and
- six changes to the Tax Administration Act, including allowing the TRD to serve warrants of levy upon financial institutions electronically; reconciling two amendments made to the liquor excise tax distribution in the 2014 legislative session; permitting the TRD to provide the New Mexico Finance Authority with information on municipal and county gross receipts tax collections; new procedures for adjusting

certain distributions and transfers to municipalities and counties; and moving the functions of the Hearings Bureau of the TRD to a new, independent administrative hearing office, which is administratively attached to the Department of Finance and Administration (DFA).

The tax package that passed during the special session included:

- allowing the TRD to reveal tax return information to an authorized representative of a local government of another state, if the local government is responsible for administering the tax laws of that state;
- extending the angel investment credit and increasing the amount of the credit to 25% of \$250,000 and the annual cap to \$2 million;
- creating a personal income tax deduction for unreimbursed or uncompensated medical expenses;
- allowing corporate filers that file electronically until the thirtieth of the month to file and pay;
- providing a corporation that is a headquarters operation the option to use a single sales factor in apportioning its corporate income to the state;
- extending a gross receipts tax deduction for trade support companies;
- creating a gross receipts tax deduction for the sale of goods and services to the federal Department of Defense if the sales are related to directed energy or satellites;
- amending the Technology Jobs Tax Credit Act to create the Technology Jobs and Research and Development Tax Credit Act to include credits for certain qualified research and development businesses, but preclude credits from being claimed against local option gross receipts taxes; and
- creating a mechanism to allow a refund of a petroleum products loading fee paid on petroleum products previously loaded from sources other than refineries or pipeline terminals, for ultimate loading into certain transportation vehicles.

Leila Burrows Kleats, chief economist, DFA, provided an overview of economic trends in New Mexico. She indicated that the employment percentage in New Mexico had increased by 1.3% in the last 12 months, which approximates the average, long-term growth rate. She highlighted recent growth among industries such as education, health care, leisure and hospitality and professional services. She also indicated that the effects of federal sequestration are diminishing. Ms. Burrows Kleats stated that taxable gross receipts have risen by 7.6%, with broad-based growth across most industries.

Ms. Burrows Kleats said that oil production has increased, while natural gas production has remained flat. However, oil rig counts have fallen in New Mexico since July, from about 90 to 45. Drilling permits decreased by 16% in FY 2015. Ms. Burrows Kleats indicated that over the long term, slower production will likely support price growth in energy markets.

Ms. Burrows Kleats provided the committee with a general fund financial summary. She reported that reserves for FY 2016 are projected to be 7.3% of recurring appropriations, which falls below a prudent target of 10%. Ms. Burrows Kleats additionally reported that revenues from gross receipts taxes and corporate income taxes have increased and that, while oil and gas revenues were stronger than expected at the beginning of the year, they have since fallen substantially.

Next, Ms. Burrows Kleats briefly summarized a number of revenue measures passed and signed as a result of the 2015 regular and special sessions. In addition to some of the legislation previously summarized by Ms. Walker-Moran, Ms. Burrows Kleats discussed provisions from legislation that will increase distributions to the Severance Tax Permanent Fund. She also mentioned changes resulting from the 2015 state-tribal compact.

Michael Marcelli, director, State Budget Division, DFA, provided an overview of state spending. He presented a chart showing general fund recurring appropriations from FY 2007 through the current fiscal year. He highlighted that recurring general fund appropriations have steadily increased from FY 2012 through FY 2015, at around 4% per year. However, it is expected that spending growth in FY 2016 will be constrained by a decline in oil and gas revenues.

Mr. Marcelli also presented charts showing relative appropriations and budget growth for the government branches and for various executive agencies. Mr. Marcelli highlighted FY 2016 increases in public education funding, including a 1.3% increase in "above the line" funding and a 6.2% increase in "below the line" funding. He stated that over \$8 million for recurring programs in "below the line" spending comes from non-recurring cash balances. Mr. Marcelli also discussed how appropriations of \$27.9 million would be used for information technology systems for various executive agencies and for the judiciary. Mr. Marcelli noted that in FY 2016, a number of balances from certain funds will be used for specific programs or operational needs and that over \$55 million from those balances will need to be replaced in FY 2017.

Mr. Marcelli concluded his presentation with an overview of the capital outlay bill, which passed during the 2015 special session and was signed by the governor. He highlighted that the legislation contains total appropriations of \$295 million.

Comments and questions from committee members followed. Committee members generally discussed the purposes of various tax credits and the effect of expansion of certain credits.

Committee members also inquired about where mining revenues would fit into the latest revenue estimates. Ms. Burrows Kleats indicated that mining revenues for minerals, such as potash, copper and coal, were encompassed in oil and gas revenue estimates.

Committee members inquired about the DFA's progress in reconciling data for use in production of a comprehensive annual financial report and appropriations for software toward that purpose. Mr. Marcelli indicated that last year, \$1 million was used toward that purpose and \$4 million is appropriated this year. In response to a question about the effect of new Governmental Accounting Standards Board reporting requirements on state agencies and the possible effect on bond ratings, Mr. Marcelli stated that bond rating agencies might take into account current conditions, under which sufficient reserves exist to cover contingencies.

A committee member asked about the possible effects of declining populations on revenue estimates. While DFA staff indicated that the DFA uses a four-year window with respect to population estimates, staff said that they would look further into this issue.

Work Plan and Meeting Schedule

Ms. Stokes presented the committee's proposed work plan and meeting schedule for the 2015 interim. Committee members provided suggestions for topics to be addressed by the committee during the interim, including topics addressing tax amnesty, tax credits for small businesses and revenues from oil and gas. The committee adopted the work plan and meeting schedule.

Adjournment

There being no further business before the committee, the Revenue Stabilization and Tax Policy Committee adjourned at approximately 12:15 p.m.